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Message Text

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PAGE 01 DOHA 00425 091117Z

50
ACTION EB-07

INFO OCT-01 EUR-12 NEA-09 ISO-00 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01 H-02

INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01

OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 PA-01 PRS-01

USIA-06 /103 W
---------- 051807
R 090905Z APR 75
FM AMEMBASSY DOHA
TO SECSTATE WASHDC 0349
INFO AMEMBASSY ABU DHABI
AMEMBASSY ALGIERS
AMEMBASSY BEIRUT
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY MANAMA
AMEMBASSY MUSCAT
AMEMBASSY TEHRAN

C O N F I D E N T I A L DOHA 0425

E.O. 11652: GDS
TAGS: ENRG, QA
SUBJ: QATAR CRUDE PRODUCTION CONTINUES TO DROP

REF: A) DOHA 266; B) DOHA 268

SUMMARY: CRUDE PRODUCTION FIGURES RELEASED BY OIL COMPANIES REFLECT FURTHER DECLINE IN OIL PRODUCTION DURING MARCH. AS REPORTED REFTELS, COMPANY SOURCES MAINTAIN REDUCED LIFTINGS ARE RESULT OF HIGH SULFUR PREMIUM ON DUKHAN (ONSHORE) CRUDE. GOVERNMENT OFFICIALS HAVE STATED GOQ DOES NOT NEED REVENUES GENERATED BY 1974 PRODUCTION LEVEL AND THAT PRODUCTION CAN BE CUT BACK STILL FURTHER WITHOUT DAMAGE TO ECONOMY. GOQ HAS
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PAGE 02 DOHA 00425 091117Z

EXPRESSED RESOLVE TO HOLD LINE ON PRICE BUT ONE OFFICIAL INDICATED

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

GOVERNMENT MAY GRANT 60 DAY TERMS TO INDEPENDENT BUYERS. END SUMMARY

1. ACCORDING TO FIGURES PROVIDED BY COMPANIES, SHELL/QATAR'S PRODUCTION OF MARINE CRUDE DURING MARCH AVERAGED 278,000 BPD (FEBRUARY PRODUCTION WAS 294,000 BPD). QATAR PETROLEUM COMPANY (QPC) OUTPUT FELL TO 151,000 BPD FROM FEBRUARY AVERAGE OF 173,000 BPD. TOTAL PRODUCTION FOR MARCH WAS 429,000 BPD. PRODUCTION OF QPC'S DUKHAN CRUDE HAS BEEN DROPPING FOR SEVERAL MONTHS, BUT THIS IS FIRST REPORTED SLIPPAGE IN PRODUCTION OF OFFSHORE CRUDE WHICH HAS LOWER SULFUR PREMIUM. OFFICIALS AT QPC HAVE TOLD US THAT LIFTINGS WILL CONTINUE TO DECLINE UNLESS GOVERN-MENT GIVES ON REDUCING SULFUR PREMIUM. QPC MANAGING DIRECTOR GEOFFREY STOCKWELL IS EXPECTED TO ARRIVE IN DOHA APRIL 8 FOR FURTHER TALKS WITH GOQ ON PREMIUM REDUCTION.

2. WE HAVE BEEN TOLD BY NUMBER OF HIGH RANKING OIL OFFICIALS IN GOQ INCLUDING MINISTER OF FINANCE AND PETROLEUM THAT QATAR DOES NOT NEED REVENUES GENERATED BY PRODUCTION AT 520,000 BPD CEILING. ACCORDING SOME OFFICIALS, PRODUCTION COULD DROP TO 300,000 BPD LEVEL AND STILL PROVIDE SUFFICIENT INCOME TO MEET BUDGETED EXPENDITURES. GIVEN FACT THAT COUNTRY DOES NOT NEED MONEY, OFFICIALS SAY THAT GOQ HAS NO INTENTION OF REDUCING SULFUR PREMIA. ULTIMATE EXPRESSION OF THIS LINE OF THINKING CAME IN RECENT INTERVIEW WITH AMIR PUBLISHED IN MARCH 28 EDITION OF BEIRUT WEEKLY "AL HAWADIS". ACCORDING ARTICLE, AMIR SAID THAT REDUCED CONSUMER DEMAND FOR CRUDE HAD NOTHING TO DO WITH CUT BACK IN OIL PRODUCTION. AMIR SAID GOQ MADE INDEPENDENT DECISION TO REDUCE PRODUCTION IN ORDER TO AVOID ACCUMULATION OF EXCESS REVENUES COUNTRY COULD NOT USE. COMPANY SOURCE PASSED OFF THESE REMARKS AS ATTEMPT AT FACE SAVING IN VIEW PRODUCTION REDUCTION.

3. ALTHOUGH ALL GOVERNMENT OFFICIALS TO WHOM WE HAVE SPOKEN HAVE STATED THAT NO CONSIDERATION IS BEING GIVEN TO LOWER SULFUR PREMIA, ONE SOURCE SAID THAT GOQ IS WEIGHING POSSIBILITY OF EXTENDING 60 DAY PAYMENT TERMS TO INDEPENDENT BUYERS OF GOVERNMENT'S CRUDE.

4. BOTH OIL COMPANY AND GOQ OFFICIALS HAVE CONFIRMED THAT COMPANIES ARE CONTINUING TO LIFT 60 PERCENT OF GOVERNMENT
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OWNED OIL (60 PERCENT OF TOTAL PRODUCTION), THUS FULFILLING CONTRACTUAL OBLIGATIONS. REDUCTIONS HAVE COME OUT OF COMPANIES' MORE PROFITABLE EQUITY CRUDE. ON ONE HAND, GOVERNMENT OFFICIALS SAY THAT COMPANIES HAVE "MORAL" OBLIGATION TO LIFT FULL AMOUNT OF EQUITY CRUDE IN ADDITION TO BUY BACK, BUT AT SAME TIME, QPC SOURCE HAS TOLD US THAT COMPANY NOT LIKELY TO CONTINUE INDEFINITELY TO SACRIFICE PROFITS ON EQUITY CRUDE WHILE LIFTING GOVERNMENT'S FULL SHARE. SOURCE HINTED QPC MIGHT AVAIL

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

ITSELF OF PURCHASE CONTRACT PROVISION PERMITTING REVISION OF
TERMS UNDER CERTAIN CONDITIONS.

5. COMMENT: ASSUMING 300,000 BPD LEVEL IS MINIMUM NECESSARY
TO SUSTAIN PRESENT RATE OF DEVELOPMENT, GOVERNMENT IS UNDER
NO IMMEDIATE PRESSURE TO DROP PRICES. HOWEVER, SINCE PRODUCTION
HAS FALLEN NEARLY 100,000 BPD SINCE BEGINNING OF YEAR, IF TREND
CONTINUES, EVENTUALLY GOQ MAY HAVE TO MAKE SOME ACCOMMODATION
TO PRICE REDUCTION PRESSURES. UNTIL THEN, IT APPEARS COMPANIES
WILL HAVE TO LIVE WITH SITUATION. HOWEVER, ONE GOQ OFFICIAL
EXPRESSED VIEW THAT GOVERNMENT COULD TOUGH IT OUT UNTIL EASING
OF RECESSION IN WESTERN INDUSTRIAL COUNTRIES AND NEXT HEATING
SEASON INCREASED DEMAND. THIS INDICATES GOQ PREPARED TO ACCEPT
REDUCED PRODUCTION AND REVENUES FOR AT LEAST NEXT 6 MONTHS.
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Margaret P. Grafeld
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